



DIVISION OF  
MARKET REGULATION

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

November 16, 2001

The Honorable John D. Dingell  
Ranking Member  
Committee on Energy and Commerce  
U.S. House of Representatives  
2322 Rayburn House Office Building  
Washington, D.C. 20515-6115

Dear Congressman Dingell:

Chairman Pitt has asked me to respond to your request for a follow-up report on the General Accounting Office's November 2000 report titled Procedures for Updating Arbitrator Disclosure Information. You asked in your November 20, 2000 letter that we advise you in November 2001 of the status of the NASD's procedures for updating arbitrator disclosure information, and whether any further changes were necessary.

NASD-DR has advised the Commission staff that its implementation of all four of the promised procedural changes for assuring that its arbitrator files contain updated information is on schedule.

First, NASD-DR centralized the administration of its arbitrator roster, placing the updating task within its Department of Neutral Management. Senior NASD-DR staff now also review a weekly report of the receipt and computer entry of this updated information. NASD-DR procedures require the completion of these updates within specific timeframes.

Second, in order to facilitate the updating process, NASD-DR provided arbitrators with an on-line form for their updates through the NASD-DR website. NASD-DR has advised Commission staff that many arbitrators are in fact using the on-line form rather than separate letters or telephone calls to supply updated information. NASD-DR has advised the Commission's staff that its procedures, staff training, and review protocol all are directed at the prompt entry of this information (whether from the on-line form or some other source) into the computer record.<sup>1</sup>

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<sup>1</sup> NASD-DR also advised Commission staff that it reminds arbitrators during training sessions, along with the administration of oaths in particular cases, and in periodic mass mailings of the need to update disclosures. NASD-DR has also advised the staff that it is in the process of reviewing the arbitrator disclosure reports for all of its arbitrators. This review is in addition to the implementation of the changes for assuring that updated information provided by arbitrators is promptly recorded, as undertaken in connection with the GAO's report.

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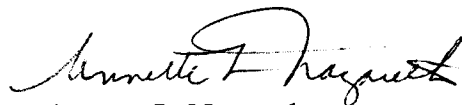
Third, NASD-DR also now provides arbitrators with disclosure reports of the other arbitrators with whom they serve on a panel. In addition to helping arbitrators understand better the background each arbitrator brings to the panel, NASD-DR hopes that the sharing of disclosure reports will prompt arbitrators to consider their own reports and the types of disclosures they have made in light of the disclosures made by other arbitrators and, if appropriate, to amend their reports.

Finally, NASD-DR is continuing the redesign of its computer system. NASD-DR has advised that it expects to provide arbitrators in 2003 with on-line access to their records, in addition to the current ability to submit updated information. Under the new system, NASD-DR expects that arbitrators will be able to check on-line their own disclosures in NASD-DR's system, without relying on paper copies of records.

I have been advised that neither the Commission nor NASD-DR has received complaints regarding the updating of particular arbitrators' disclosure records in the past year. Moreover, these steps reported by NASD-DR are consistent with inspection-related correspondence between Commission staff and NASD-DR in November 2000 and February 2001. In light of the actions taken by NASD-DR, and the absence of complaints, it does not appear that further changes are needed at this time. Of course, the Commission's inspections staff will continue to monitor this issue.

I welcome your continued interest in the fair administration of the arbitration process. Thank you for your letter.

Yours truly,

A handwritten signature in cursive script, appearing to read "Annette L. Nazareth".

Annette L. Nazareth  
Director